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### NEED FOR ADAPTABILITY TO CHANGING INDUSTRIAL FORCES

Finally, there remains the fact that any principles that are adopted as a basis of wage settlement would have to be of such a kind that they could be modified to take account of changing industrial forces. They would have to be such, for example, as would be compatible with the possible extension of profit-sharing arrangements. Or, to take a further example, they would have to be compatible with a possible future growth of joint industrial councils in industry. They would have to be of such a character that they could be used in connection with a variety of relationships in industry between employers and employed,

and changes in those relationships.

At the risk of repetition I wish to end this short survey of the subject presented in Dr. Mitchell's paper, with the opinion that any policy of wage settlement will have to reckon with a large number of difficult requirements—which cannot be wholly reconciled with each other. No single principle such as that of "relative rating" will suffice to meet them all. The policy would have to be more complicated. It could remain in use only by virtue of a public belief that its results were more beneficial and just than any alternative. It could expect support above all from the growing belief that a continuation of industrial strife on an ever-growing scale is insupportable.

## The Effort of the Worker to Improve His Own Condition is Indispensable

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**I**N the leading article of which this paper is a discussion, Dr. Mitchell calls into question the practicability of attempting by wage award, union pressure, or other means to bring the wages of workers in the various industries up to some "standard of living" which may have been set up as desirable. Unless the amount of goods produced is increased, he reasons, higher labor cost in any one industry or in any group of industries simply means higher money prices, a higher cost of living, and in the end other workers, if not the workers in the particular trade affected, will lose as much as is gained. If all wages go up, the cost of living will be proportionately increased and no workers will benefit. If the wages of only part of the workers are increased, then those workers may

benefit, but all that they gain will have been at the expense of other workers.

This main proposition which Dr. Mitchell has so squarely put before us goes to the very root of the whole question of wage fixing. The question as to whether wage advances are simply a matter of robbing Peter to pay Paul, or a means of really raising the general standard of living is fundamental. It is the view of the present writer that the article under discussion has shown the existence of limits of the most genuine character to what labor can hope to secure by the road of wage increases; limits that are, in fact, so important that the main hope of those who would aid labor must be turned to measures very different from simply holding up wage-rates. But though this is the central truth which ought

to be impressed upon every friend of labor, yet the present writer feels that its statement should be accompanied by certain qualifications. He proposes, therefore, to draw attention to a number of important circumstances under which, in spite of its general tendency to futility, the effort to increase wages may serve an important function and may indeed be of positive benefit to the general body of labor.

#### ADVANTAGES TO BE DERIVED FROM PRESSURE FOR HIGHER WAGES

The first point that needs qualification, in connection with the general contention that wage increases are always at the expense of the workers, is the assumption that when wages are advanced and prices also go up, the increase in prices is caused by the increase in wages. In the limited field of a single industry or small group of industries, in a period when prices tend to be stationary, that might indeed be the order of cause and effect. But in the case of all the more general increases in money prices—such as occurred during the War, or after the discovery of gold in California, or during the years between 1897 and 1914—the rise in prices was due, not to increased wages, but to factors connected with the supply of money, the demand for goods and the methods of government and private finance. In each of these periods, the increase in prices was bound to go on whether wages went up or not. So that if the wage earner had not pressed for higher pay, he would in general have had to meet the high cost of living without his own wages having gone up as it should.

It is true that the very increase in money prices tends in time to bring the wage level up; so that without conscious effort on anyone's part the forces of competition, explained by Dr.

Mitchell, would tend to raise the money income of workers to meet the higher level of prices. But this increase in wages ordinarily lags behind the increase in the selling price of the goods which labor is making. By prompt pressure labor, in industries where selling prices are rising, can obtain wage increases sooner than they would otherwise come, and without necessarily increasing selling prices more than they would be increased were such wage advances not pressed.

The year 1920 furnishes an illustration of how wages throughout an entire country may for a considerable period be lower than economic conditions would seem to warrant. During a large portion of 1920 industry was apparently demanding more men than were available. Whenever industry is thus running full with a marked shortage of labor, it may be assumed that the wage-rate is for the time being below the real value which employers place on getting work done. Theoretically, it would have been to the advantage of almost every employer as an individual to have raised wages and attracted more labor. But employers fall short in doing this, partly because they do not get around to it, partly because they are afraid of bringing confusion into the labor situation, partly because even at the higher wages it would be hard to get labor, and partly, also, because of a sense of solidarity among themselves. So for many months the general level of wages may remain below the rate which perfect competition would bring about; and at such times a strong effort of employes to better their condition should be able to cause a general increase in both money and real wages, which would, at least in part, come out of profits and not out of living costs.

On the other hand, it is equally possible that falling prices may leave wages

too high for the best interest of employees—including among employees both those at work and those thrown out of work. Strange as it may seem, it is entirely possible that it would have been to the interest of labor in America early in 1921 to have come forward and compelled a general reduction in wages through all the industries, provided, of course, that the reduction did not go too far or too fast; that labor could have been assured that the employers themselves would not, by a failure to readjust selling prices, have thrown obstacles in the way of a business revival; and provided, also, that retail dealers would not refuse to pass on to the consumer the reduction in the level of wholesale prices. Indeed, it might have been a profitable course for labor to have followed even if all these provisos had not been perfectly carried out. We are not commenting here on the practicability of carrying through such a program, but simply wish to point out that falling prices may leave wages above a serviceable level, just as rising prices may leave them too low.

#### KEEPING WAGES IN LINE WITH RISING PRICES

In discussing labor's policy towards both raising and lowering wages and prices, it must be remembered, therefore, that the general level of prices is for the most part determined outside of the field of labor. It is perhaps going a little too far to say, as was intimated in the main article, that labor is not concerned at all as to whether the general level of prices is high or low. For the absolute level of the purchasing power of money is of real significance when it comes to buying goods from abroad; it is also important that the absolute level of money incomes be what it should be in view of the quantity of money and the cost of producing gold; it makes a great deal of difference

to the workers as to whether the value of money is stable or trends upwards or downwards. Labor, accordingly, like everyone else, does have a real, though it may be an unappreciated, stake in the question of a high or low level of prices. But whatever may be the wishes of labor in the matter, the fact is that the general price level moves for the most part in an orbit of its own, pulled about somewhat by the demands or lack of demands of labor, but, on the whole, finding its successive levels in response to deeper forces. If labor should refrain from advancing the wage-rate when conditions invite, the probability is that its self-denial would redound mainly to the benefit of employers, or speculators, or traders. If labor does succeed in getting an increase in its money wages, it is probably more from these classes that the profits are taken than from any group of consumers.

This is the situation in the rough. In actual practice, of course, things are much confused during a period of either rising or falling prices, and in many specific instances the demands of labor would doubtless hasten the raising of prices. But in all cases the tendency to a rise in prices would already have been there; in many cases the rise would already have taken place; and in practically all cases it would come eventually, even if labor tried to hold its own wages down. Usually the increase in wages which labor could gain in this manner, without tending to start a fresh rise in prices, would be very much limited. But during the war period and the two years following, the difference in the prosperity of labor, depending on close, as contrasted with loose, attention to the matter of keeping wages in line with rising prices, was bound to be enormous. Indeed, it was in no small measure because of the failure of labor and, indeed, the

inability of labor to meet this situation in any carefully planned way that there arose, on the one hand, so large a volume of war fortunes, while, on the other hand, there was a considerable impoverishment of certain groups of workers.

The chief other respect in which it is necessary to qualify Dr. Mitchell's contention that an increase in money wages necessarily comes back in higher living costs, has to do with the possibility of workers' in this plant or that or in this industry or that winning for themselves a part of what may be termed differential profits.

#### THE POSSIBILITY OF DRAWING ON DIFFERENTIAL PROFITS

One of the outstanding characteristics of modern industry is the fact that there is a wide difference between the efficiency, the business luck, or, perhaps, the special privilege enjoyed by different firms in the same industry, or perhaps for a period of years by a whole industry in comparison with other industries. These differences of merit or fortune constitute the real reason why some companies make a large amount of money while others are no more than able to pay their bills. Differential profits are a chief explanation of the wealth of the millionaire, and an important source of all those inequalities of income which separate those who live well from those in moderate circumstances. The wealthy, of course, are so few compared with those who are not wealthy that a division among all the people of all the property of the country would not bring the universal enrichment that some picture. Nevertheless, the differential profits of business are large enough so that if labor participated in them, it would mean for many of the workmen affected a substantial increase in individual income—not one hundred per cent on

the whole or anything like that, but yet enough to make a good deal of difference in a man's outlook. Indeed, differential profits constitute almost the only fund out of which it would be possible permanently and materially to increase labor's share in goods.

Now the whole argument in the leading article regarding the impossibility of increasing real wages unless the amount of goods is increased, rests on the assumption of a uniform wage-rate for all plants. Our author holds, in accordance with the theory that has been accepted in economics since the days of the founders of the science, that the rate which will be paid all labor is determined by what the less efficient and less successful plants are able to pay—those plants which are barely able to make ends meet and yet whose product seems to be needed to fill the demand for goods. If wages are raised above the productivity of labor in these less efficient plants, then, it is held, these marginal firms will be forced out of business, the supply of goods will be lessened and prices will rise. Or, more likely, the higher level of wages together with the shrinkage in the industry will bring a surplus of labor which will of itself bring wages down again. In any case, the wage-rate for an entire industry and for all industries is set at what those plants which just manage to survive are able to pay, the more successful plants needing to pay no more. The whole of the differential earnings, all the superior yield of the plants which do well over those which do poorly, goes to the owners of the successful plants, or to others who control property rights. There is no way by which labor may increase its share.

Under conditions of perfect competition, the writer can see no weakness in this line of reasoning. But when we speak of trade unions and of boards

of arbitration we are speaking of forces which are more or less departures from competition of the traditional type. The traditional economic theory also assumes that complete control, in legal theory and in actual practice, is in the hands of the owners of an industry, and that any unusual profits go entirely to the owners and not to the men who put their lives into the industry, excepting that labor of the higher sort which is connected with management and perhaps ownership. But it is obvious that if we could conceive of an industrial practice in which it was recognized that profit accrued to labor in the form of higher wage income as well as to capital in the form of higher dividend income, or if it were possible for labor to invent forms of organization which were strong enough to take a larger return from the more successful plants or the more fortunate industries, or if it were possible to think of society as developing a type of arbitration board which might take these matters into consideration in its awards—then, under any of these three conditions, there is open a possibility of labor's, in many concrete instances, increasing its wages in such a way as would reduce differential profits but would have no influence on selling prices.

#### CHEAPER GOODS MORE EFFECTIVE THAN SHARING OF DIFFERENTIALS

The present writer is inclined to believe that, on the whole, the solution of the problem of a fair division of the proceeds of industry should not come by the method of simply transferring to the workers in the more profitable plants or industries the gains that now go to property owners. He believes it would be much more logical and more just all around to work for the leveling of profits and their distribution in the form of cheaper goods. Cut out all

forms of favoritism for those who now have more than their share of fortune; increase the efficiency of that preponderate section of production that is now carried on below a reasonable standard of efficiency, and these measures will in themselves tend to prevent the accumulation in the first place of income that does not arise from labor or come as a reasonable return upon investment. But this is a task which will take many years and never be perfectly accomplished. In the meantime the unevenness in the returns to different enterprises remains. Many people receive income out of proportion to investment, or to the quality of enterprise shown, or to service rendered. Is there any reason why it should be laid down as a law that labor in these industries or plants should be held to the common level for the country? It is more in line with the spirit of the times to give labor at least a measure of interest in the industry.

#### MONOPOLY IN DISGUISE

In the special case of some of the large scale industries where there is an approach to monopoly, the writer sometimes wonders as to whether it is in reality a true portrayal of things, to think of selling prices and labor costs as finding their equation and determining one another in the less efficient plants; or whether it would not be truer to consider that the large companies who alone operate by efficient modern methods determine more or less arbitrarily what selling prices and wages shall be and limit their production to an amount consistent with the selling price established; and then, because there is so substantial a margin between cost and selling price, other companies with antiquated organizations or methods spring up and operate at the margin. If we may distinguish the "real industry" from

the "pseudo-industry," the real industry has no marginal plants at all but in all of the plants there is a surplus of selling price over cost.

The entire production of the country could be and should be supplied by plants working on the high level of efficiency. But because there is no real competition, because the best raw materials, or the only modern methods, or the cream of the country's technical skill is massed together under the control of one well-knit group, so as to give in effect a monopoly, it is possible strictly to limit that production which is on a modern scale; the pseudo-industry is allowed to spring up because it preserves the appearance of competition and because it is consistent with the perpetual collection of large profits by those who have the real control, on as large a part of the business as they dare carry on. The establishment of this marginal production is, considering everything, a highly artificial device; it does not remove the fact that the industry — that is, the true industry — is a monopoly, and that there is no sound reason why wages should not be much higher, or else the selling price of the product much reduced.

The writer does not know that he is perfectly describing the conditions in any industry. But in view of the dominant position occupied in so many national or local industries by a well-knit group of low-cost companies, who perhaps have all the best supply of raw materials, or the best methods, or the best organization, it is possible that we have in this country much monopoly in disguise, as we certainly have high differential profits. If this should be so, then an insistence that wages should be what the capable modern companies could pay, and a repudiation of the principle that no one should pay more than could be afforded by those unsoundly operated plants with which

a sane national industrial policy would dispense, might give to labor a very substantial volume of income that does not now pass into its hands. As already indicated, the writer believes that the best plan is to work for the leveling or regulation of monopoly gains rather than their distribution in wages. And doubtless the forces of law and inroads of competition are ever working in that direction. But in the meantime the problem just described is a real one and might be assailed by measures which would give temporary relief as well as those which would mean permanent solution.

#### SURGE OF WORKERS AGAINST WAGE-RATE THE FOUNDATION OF THE PRESENT SYSTEM

Turning from these special cases to the more general situation, perhaps the most insistent reason why workers cannot under our present system abandon concern over the level of their pay is because society relies on the continual surge of groups of workers against the wage-rate—and the counter resistance of those who oppose wage increases—to fix in all its details the wage-rate which shall actually prevail. Dr. Mitchell emphasizes the importance of establishing a right relation between pay in different industries and especially for different types of workers. Those relations ought in time to be worked out on a basis of justice. But at the present time the very foundation of our whole system of distribution rests, not on any reasoned correlation between merit and desert, or between need and satisfaction, but, so far as rates have a degree of moral or scientific sanction, primarily on an idea of what is right, based on rates as they have actually been worked out during a long period of economic struggle. We may say that a manager is worth ten times as much as a machinist and

not five times; that a policeman is worth twice as much as a school teacher and not half as much. But if we think either of these are the proper relations it is only because that, roughly, is the way it has worked out. If forces had worked out a little differently, managers might receive a hundred times as much or only twenty-five per cent more than machinists, and policemen might be the very lowest in the economic scale or paid like prize fighters; and we should have adjusted ourselves to the idea of any of these ratings as appropriate. Until the world adopts some very different basis for the determination, not only of wages but of other forms of money income, the real reason why some men are to be rated high, and, especially, the real key to discovering the proper degree of differential, must be sought for, not simply by studying psychology, or physiology, or the details of men's work, but by noting what peoples' labor can actually command in the competitive market.

But the healthy functioning of the competitive market depends on strenuous efforts being made on both sides, the one to raise incomes and the other to depress expenditures. Suppose it were true that the raising of wages beyond a certain point defeats its own purpose. How is the worker or employer to know where that point is, until after it has been reached? Even in the case of so comparatively simple and fundamental a matter as the general level of prices, economic science cannot predict the course of prices with even approximate certainty, much less can statisticians, or employers, or workmen tell what will be the price for particular commodities, or what industry can afford to pay this or that type of worker. Even though it were known that the gain of one worker would come out of the pocket of another, a perennial concern on the

part of each worker or class of workers over the size of his income would serve much the same useful function in stabilizing and adjusting prices that the labors which accountants undergo in balancing books to the cent have in keeping the wheels of business from getting fouled.

But the truth of the matter is that in a great host of concrete cases, both those large cases where wage-rates are adjusted to new price levels, and, more particularly, in the innumerable small cases where the workmen in single plants or individual workers are re-rated, the increment which the worker adds to his wage, or the loss that he takes, goes back no farther than to his immediate employer. It is only in the long run and remotely that workers take from one another. While a general program of wage advancement affecting all workers would oftener than not benefit no one, the constant guerilla warfare, if we may call it such, the persistent worrying up of wage-rates for this individual or that one or this group of workers or that, the process of bringing individual remuneration all along the vast, intricate line up to the level that in the particular case is possible—such detailed pressure should give workers as a whole a substantially larger volume of real income than would the opposite policy, under which each worker implicitly relied on the general principle that his wage made no special difference because it would all come back in lower living costs.

In passing it should be observed that even if wage increases caused a proportionate increase in the cost of living, yet the wage earners of whom we are speaking here, the people whose wages it is proposed to increase or not increase by union action or arbitration boards—these really constitute, not only merely a portion of the total population, but

indeed, only a portion of the actual workers. Theoretically, farmhands (and farmers too), clerks, professional men, and unskilled workers of every degree are all labor. But many of these people do not consciously identify themselves with the working class. As the years go by and the capitalistic system spreads over more and more of the field, all classes of workers come closer to being one group. But such an amalgamation of classes is far from being complete. So it is conceivable that glass blowers and tool makers and the whole range of labor—in the ordinary, practical usage of that term—might win wage advances, and the cost be borne in part by the farmer and draftsman and the countless other workers who are as yet only imperfectly linked in that fellowship of labor whose group interests we are here weighing. Doubtless many leaders of labor would hesitate to approve of a method of advancement which manifestly depended on taking from these unassociated groups; but complete candor compels us to recognize that the wage earner—he who belongs to Labor spelled with a capital letter—is not yet so dominant a factor in society but that his status might be considerably improved by what could be transferred from other groups.

#### THE SCIENTIFIC ESTABLISHMENT OF WAGE-RATES

The circumstances which have been mentioned, taken singly or all together, do not alter the fact that the raising of money wages falls far short of being the fundamental solution of the labor problem. They do help to explain why it is often necessary and beneficial to the interests of labor that labor make positive effort to increase its wages. Competition does not work so perfectly, nor is the power of organized action so unavailing but that in many con-

crete cases activity by labor or by arbitration boards might succeed in raising wages, without its causing a corresponding increase in the cost of living. It has, moreover, been pointed out that in the mixed-up world in which we still live, it is not easy to say how wages could be determined with any degree of precision without making use of the underlying desire and effort of each class of workers to better its own prospects. Nevertheless, when all is said, it is believed that Dr. Mitchell is right in urging against any more than the most necessary attention's being given to the money level of wages. It is believed that as the years go by, attention should be concentrated more and more on the establishment of correctly adjusted as opposed to merely high wages.

#### PRACTICABILITY OF AN OBJECTIVE STANDARD OF LIVING

Our chief ground for difference with the author of the leading article of this volume is on the matter of the way in which these correct wage-rates, in particular the general level of wage-rates, should be ascertained. Dr. Mitchell grounds his whole plan upon a rejection of the standard of living idea. He regards the standard of living as something that varies with each individual according to the size of his family, his ideals with regard to living, etc. It must be admitted that there is a subjective standard of living which is necessarily of a variable quality. But there is also an objective standard of living, which might more accurately be called a standard of purchasing power, which is something tangible and which could be fixed very definitely for every man and woman. Our author's idea of this objective standard of living, or of purchasing power, would evidently be that it, too, is something that is of no value; for

what is the use of setting up a standard of living when industry can in any case produce only so much goods? But that all depends on the kind of standard of living one has in mind, whether it be an ideal standard that persons would like to attain, or a standard which study shows is a practical standard for actual application. Perhaps not every one will agree with this definition; but the writer's view is that the standard of living which is useful in wage determination is not some artificial standard that people say ought to exist, but rather one which should be regarded as the resultant, the product of the existent stage of industrial development.

There is no definite minimum wage that men and women must have to live; there is no objective minimum that they ought to have in order to live a full and rich life. The standard of living is a variable. But it is possible in any country at any degree of industrial efficiency to say that such and such a standard is attainable; that industries that do not support it are subnormal and parasitic. And, if care be used in setting up the standard, it should be possible to establish a standard above that which prevails in many lines of work but not out of possibility of attainment by every necessary industry. The correct standard of living upon which the general level of wages should be based is the highest possible minimum that the industry of the country as a whole can afford to pay and still run sufficiently fully and successfully.

#### WAGE REVISION TO MEET CHANGES IN LIVING COSTS

This conception of a standard of living, and more particularly of the cost of living, is of special practical importance when it comes to making allowance for changes in the cost of living due to changes in the value of

money. Dr. Mitchell is perhaps right in pointing out that in war-time people must consume less; so that it is unreasonable to expect the buying power of people generally to keep pace with rising prices. Wages could be allowed to keep pace with increases in the cost of living if people could be trusted to curtail their expenses drastically and invest in government bonds; and possibly in the case of the industries which must be expanded, or in the case of groups of labor which have been underpaid, it may be advisable or just to increase incomes faster than the rise in the cost of living. But, generally, the coming of a serious war—which calls not only for suspension of peacetime capital construction, but for a diversion of labor from making consumption goods to manufacturing munitions—could probably most easily be handled by planning for a decline in the real incomes of labor and people in general.

But when the author speaks, apparently with disapproval, of the manner in which during the post-war period arbitrators granted wage increases on the basis of advances in living costs, it would seem that he is running counter to his own fundamental principle. An advance in wages that merely takes care of the increase in the cost of living due to a decline in the purchasing power of money, is not a disturbing of the existing level of wages but a means of preventing the existing level from being disturbed. Those persons, therefore, who hold that economic forces make inadvisable and futile any change in the level of wages except such as would serve to bring particular wages in proper line with other wages—those persons should hold that it would save a great deal of needless strife and confusion if wages could be adjusted almost automatically to changes in the value of money, so that the only special

attention that would need to be given to wages would be to pick out those occupations where for some special reason the advance in wages should be greater than the advance in the cost of living, or, on the other hand, those industries where it should be less. In the absence of such a disturbing factor as war, the peaceful and scientific adjustment of wages would be much furthered by agreeing that there was a *prima-facie* case for an advance equal to the advance in the cost of living.

The revision of wages to meet changes in the cost of living is, however, only a first approximation to determining what wages really should be, because such revision leaves untouched the question as to whether wages were at the right level before the change in the cost of living, and it also takes no account of the question as to whether new circumstances, contemporary with and perhaps related to the change in the cost of living, have not introduced reasons for a change either in the general level of wages or in the relative remuneration of different groups.

#### STANDARD OF LIVING PRINCIPLE ESSENTIAL IN FIXING OF PERMANENT WAGE-RATES

In dealing with the problem of the permanent level of wages, the writer would again hold that the best method of approach is from the point of view of the standard of living. In localities where living costs are higher than at other points it is obvious that the setting up of a common standard of living will be especially useful in arriving at proper ratios. But under all circumstances the idea of a national standard of living should give the best possible basis for taking in all the country and all industries at one view and getting a real equivalence and justice of wage-rates.

This national standard of living should, as already explained, be fixed upon with a view to what is actually attainable in the industries generally. The procedure in determining it would, of course, depend on the methods by which wages in general were determined. If wages were fixed generally by arbitration boards or industrial councils, or even by trade agreements, the standard of living could be determined with greater and greater accuracy, as the years go by, on the basis of actual examination of the productivity of industry and analysis of what it is possible for the country to pay labor generally. If, as is the common practice now, wages were determined not by any very general program, but by forces working independently in the several industries or several localities, the idea that there was a standard of living which should be met would nevertheless be of help in bringing wages to a standard and true level. At any one moment there is always a tendency toward some general standard of wages, which would be the more nearly one definite rate if the employers and men in each industry had before them the conscious aim of hitting upon such a general standard and would accordingly go to some pains to ascertain what was paid elsewhere. But there would be at all times more or less pressure towards a higher level; and as one industry or another found itself prosperous enough to set up a standard of its own a little in advance of the usual rate, that would tend to be done. If conditions in other industries warranted it there would be a tendency for them to follow, until industry as a whole would be on the higher level. Perhaps some plants at the margin would have to suspend operations or modify their methods. But if during this effort to attain a somewhat higher standard it developed

that the new rate was beyond the reach of industry generally it would fail of general adoption and the ideal of standardization would tend to hold the whole fabric of rates down to the rates which it was found had to be fixed if certain of the important industries were to operate.

Wages have been set somewhat in this manner in the past, but with a great deal of unevenness because of lack of contact and information between different sections and industries. More conscious attention to and support of the idea of wages fitting a national standard of living, would cause the general level to be more uniform. However, the extension of the services of a high type of arbitration board or industrial councils with jurisdiction over large areas and over great numbers of men would tend to bring the standard of living to a greater uniformity and to a quicker accommodation to new levels made possible by industrial progress. It might of course be decided that the standard of living should be a minimum, and that, where it was possible, industries should pay more.

Dr. Mitchell has really avoided this whole subject of the fixing of the general standard, or, perhaps we should say, left it to the gradual working out of economic forces. He would have a system of rate-setting which was inherently much more stable, which obtained its results much more smoothly and with more of justice if he would plan for some method of standardization of the general level. We have not much more than touched here on the actual method of setting up a general standard of living; but surely the idea of such a standard would be almost essential to any studied effort to work out a general level, either through the industries themselves or through some kind of boards.

### THE FIXING OF DIFFERENTIALS

But the idea of fitting wages to some understood standard of living is no less useful when it comes to fixing not the general rate but the differentials for different groups of workers. Dr. Mitchell speaks of a great variety of scales of remuneration based on the intelligence, the training, the education, the strength, the degree of attention required, the accuracy, the responsibility, the comfort, the healthfulness of environment, the perils and the steadiness of employment of the different workers. Doubtless all these factors should have some influence on the wage-rate. But the writer is inclined to believe that taking everything into consideration the variety of wage-rates could be reduced immensely; and that the great body of the workers could be rated at either a single standard—modified, of course, through a scale of seniority or proficiency—or on a few scales bearing very simple relations to the main standard.

The industrial world is full of wage differentials between workers; but many of them are of the most illogical character. These differentials are based on historical accidents, on the relative skill of different groups of men in gaining increases and on unessential peculiarities of place and practice. During the War, some of the great wage boards established uniform rates for men from the Atlantic to the Pacific and from the Great Lakes to the Gulf of Mexico (barring colored labor in certain parts of the South) and set up identical rates in all this area for skilled men in a great variety of trades. These awards wiped out a host of old differentials. Sometimes they fitted imperfectly and caused embarrassment. But on the whole they worked. Since the War, the reversion to the old principle of special wage fixing in each place

has brought about a certain measure of diversity. But as long as the wartime idea of national standards was adhered to there was nothing inherently impractical about the system. National standards may be too high or too low or wrongly drawn up, but it has been demonstrated that if we want them they can be made to work.

There are good human and industrial reasons for believing that under a truly fair and logical system of remuneration devoid of accidents, the pay, the worth, of most persons would be not far from uniform. When it comes to creative work, when it comes to very special peculiarities, persons differ enormously; so that one man might well be worth a thousand others. How many workmen would it take to fill the place of Newton, or Lincoln, or, perhaps, of some of the real makers of modern industry? But in proportion as industry becomes standardized on the basis of the best practice, in proportion as there is education, transference of skill, and the spread over great areas of each new thing that someone discovers, the great majority of people are put at work carrying out measures thought out by others. Real ingenuity becomes more valuable than ever; but nine-tenths and more of the actual work of the world becomes routine. Now at routine work people are potentially not so far from equal. There may be many occupations that not everyone could fill; but as long as there are many more people who could fill these occupations—and would be glad to do so—than there are such positions to be filled, such distinctive callings have no special value under our system and draw no more remuneration than the other work of the world.

Not everyone may be able to read, or engage in this or that work requiring special knowledge. But when more people can read than there is need for

clerks, when more people are educated than there is need for school teachers, when more people are versed in languages than there is need for translators, these occupations tend to lose their special economic importance. Education and the greater adaptability of labor tend to wipe out old aristocracies of learning and trade. The unit of industrial labor power tends to be fixed at the value of one pair of hands, or one pair of eyes, or one center of mental attention. Most persons are about as rich as all others in their possession of one or more of these ultimate factors of production. So, in spite of great differences of character and physique, we find the earnings of women approaching those of men, of the illiterate approaching those of the college bred, of clerks and skilled journeymen, of brain-workers and common laborers tending to one level. The very exceptional man, or the man whose income is dependent on what he has himself built up outside of the field of the great industries, may conform to no standard at all. But it will become increasingly possible for wage earners throughout our country, and indeed in not so long a time throughout the world, to be rated on the basis of one standard of living.

#### RATE-SETTING BUREAUS, UNIONS AND WAGE BOARDS

With the increasing tendency towards nation-wide industrial enterprises, with the increasing frequency with which workers move about, with the increasing standardization of the conditions of culture everywhere, this task of working out sound wage standards based on a broad view of the standard of living will become increasingly essential.

So the writer feels that it would be a mistake to reject the standard of living basis for determining wages,

especially when it comes to future developments; just as it would not be fair for society to ask the workers, under present conditions, to refrain from striving for increases in their own money wages. We are very far, however, from finding fault with the efforts of companies and managers to do what can be done to line up in their proper relations the pay of the different groups of workers in their own employ. Probably the best plan that is now generally possible would be to take the general rate paid in the line of work, or make an advance on it if it is desired, and then work out by some such method as Dr. Mitchell has suggested a system of differentials for the higher or the more trying sort of tasks. The effort should be made to minimize, rather than magnify, the difference in rates between different varieties of work. But pains should be taken to give liberal pecuniary encouragement to the development of those higher qualities of ingenuity and trustworthiness which often take years properly to develop and are of inestimable value. Also, care should be taken to reward different people on the same job in proportion to service rendered.

What we have especially wished to bring out, however, is the fact that the best and the most scientific rate-setting, if confined to a plant, will be short of a complete solution of the problem. No amount of psychology or study of conditions within the shop can take the place of the adjustment, through instrumentalities wider than the shop, of those great forces and principles whose sphere of action may be as broad as all industry. As long as industry falls as far short as it does at present of being just, there must be some means by which rate-setting is influenced by the great movements of groups of workmen to safeguard or improve their condition. As industry

gets better control of itself and its plans become more comprehensive, there must be developed some means by which the agents for many plants and industries, and for countless numbers of employes, may get together and work out generally applicable and fair standards of compensation. Scientific rate-setting in the plant is a good tangible place to begin. But there will remain a place for the labor union and the collective bargain through all of today; and tomorrow, a very large function should be served by the board of arbitration or the council of industry. All are needed if rate-setting is to be broad as well as minute.

#### THE FRUITFUL WAY TO IMPROVE CONDITIONS

There is one by-product of Dr. Mitchell's discussion which is perhaps of greater importance than the main problem which we have been trying to solve. He says that money advances in wage-rates do not on the whole benefit labor. While we have tried to modify that in certain particulars, on the whole it should be agreed that money advances do not in themselves advance the workers very far along the road to economic betterment. Dr. Mitchell says that, not a general money advance, but the establishment of a right relationship between the pay of different groups of workers is the important matter. That relationship should, indeed, be worked out. But the subject should not be dismissed without its being pointed out, as Dr. Mitchell would be the first to agree, that the real solution of the problem of the betterment of the worker is through greater production.

But, for the individual worker or the individual plant or even the individual industry, greater production does not necessarily mean a gain to the men in that plant or industry. It may if the

management agrees to make it so. The last thought which the writer wishes to bring out is that while greater production makes possible the greater welfare of the worker, and while in the long run, if the greater production is wide enough, it is bound to improve his condition, the one way for the worker to assure himself of increasing his real wages—either now, or in the event of greater production in the future—is for him to develop a program, not so much of raising wages, as of reducing profits (in the economic sense of returns in excess of wage-cost, interest charges, and necessary expenses). The way out lies not so much in planning to make incomes greater as in starting a resolute campaign to make goods cost less.

#### LOWERING OF SELLING PRICES, THE GOAL

That, perhaps, is the real lesson to be drawn from this whole discussion. The forcing up of the general money wage-rate, even if it were possible, is too sweeping and indiscriminate a measure. It would under most circumstances do little or nothing beyond increasing the cost of living. A much more logical and effective procedure would be to begin at the purchasing end and, wherever there is an obvious gulf between labor cost and the selling price of goods, work for a lowering of selling prices.

From the strictly practical point of view of furthering the workers' interests, this concentration on the question of what goods cost furnishes a better starting point than even the ultimately more important question of efficiency of production. For, so far as the consumer is concerned, it is only those improvements in production which actually cheapen goods on the market that count. The lowering of selling prices is, therefore, the tangible thing to watch, the concrete goal to

work for. With this measure of success in mind, labor and all those who consume (and that means everyone) should start back along the stream of goods, looking for all the places where wealth may have been diverted. All the places where cheap goods have become dear should be examined; all the wastes should be stopped, until finally that point is reached where the stream can be increased in its original flow through greater production. The enrichment of production is, of course, the fundamental thing; but from the standpoint of popular welfare it is no less important to overhaul that whole system of production and exchange through which goods which may be cheap in the making in so many cases become expensive in the buying.

In general, then, the campaign must be aimed at every form of privilege, on the one hand, and inefficiency, on the other. But the possibility of success lies in its being a piece-meal undertaking. Losses must be attacked according to the ways in which they occur. The campaign must be waged on a hundred different fronts, on monopoly and profiteering of every form; on tariffs whose purpose is privilege, and on wrongly or weakly constructed systems of taxation; on unearned increments, on unstable money, on violent changes of all sorts, and devices for keeping out competition; on wars, and the preparation for wars, and the aftermath of wars; on anti-social trade practices and harmful union rules; on ineffective systems of employment; on ignorance, on out-of-date methods; on inadequate education—on the host of forces which make some people undeservedly rich or bury great sections of industry under a load of inefficiency. The solution is complex beyond description; but it is the only way in which society at large can advance.

If by consistent effort along these lines selling prices can be kept reasonably close to necessary labor (and interest) costs, it makes little difference (so far as we are concerned here) what the general level of incomes is. Let us make sure, as Dr. Mitchell urges, that the different rates of remuneration are

in proper relation to one another; and then be content to have the general level of incomes established wherever monetary considerations prescribe. Some attention the money wage must always receive; but it will tend increasingly to become the small end of a very big problem.

## The Equilibrium Wage

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**I** KNOW of only one approximately satisfactory price for any commodity and that is a price which will tempt producers to produce as large a product as buyers are willing to buy at the price, or which will tempt buyers to buy as much as producers are willing to produce at the price. If the price is sufficient to call forth an adequate product, producers must find it relatively satisfactory. If buyers are willing to buy the whole product, they must find the price relatively satisfactory.

Of course no price is ever absolutely satisfactory to anybody. Sellers would always be better satisfied, or more nearly satisfied, if the price were different—generally if it were higher than that which they are getting. Buyers would be more nearly satisfied with a different price—generally a lower price than that which they are paying. We may as well dismiss at once, therefore, the possibility of ever finding an absolutely satisfactory price for anything. Except in cases of siege, famine or abnormal scarcity when supply cannot increase to balance demand, we must be content with a price which producers find satisfactory enough to induce them to keep on producing and which buyers find satisfactory enough to induce them to keep on buying, so that there is a balance maintained

between production and consumption.

With one important exception, I should apply the same test to the determination of a satisfactory price for any economic service, whether it be that of the laborer, the saver or the business man. If the incomes of business men are sufficient to attract into business as many men of high quality as the industrial conditions can support, business men must find their incomes relatively satisfactory; that is, as satisfactory, all things considered, as those of alternative occupations. We are assuming, of course, that violence and fraud are eliminated and that the incomes are secured as the result of service rendered. There is no more reason, however, for insisting upon this assumption in the case of business men than in the case of savers or laborers. One class is no more likely than any other to make use of violence and fraud. As a matter of actual history, at least in recent years, business men have not made larger use of these methods than have laborers.

If interest rates are high enough to induce people to save as much as can be invested in productive industry without loss to the investors, interest rates are relatively satisfactory; that is, savers find them satisfactory enough to induce them to keep on saving. Borrowers and investors find them